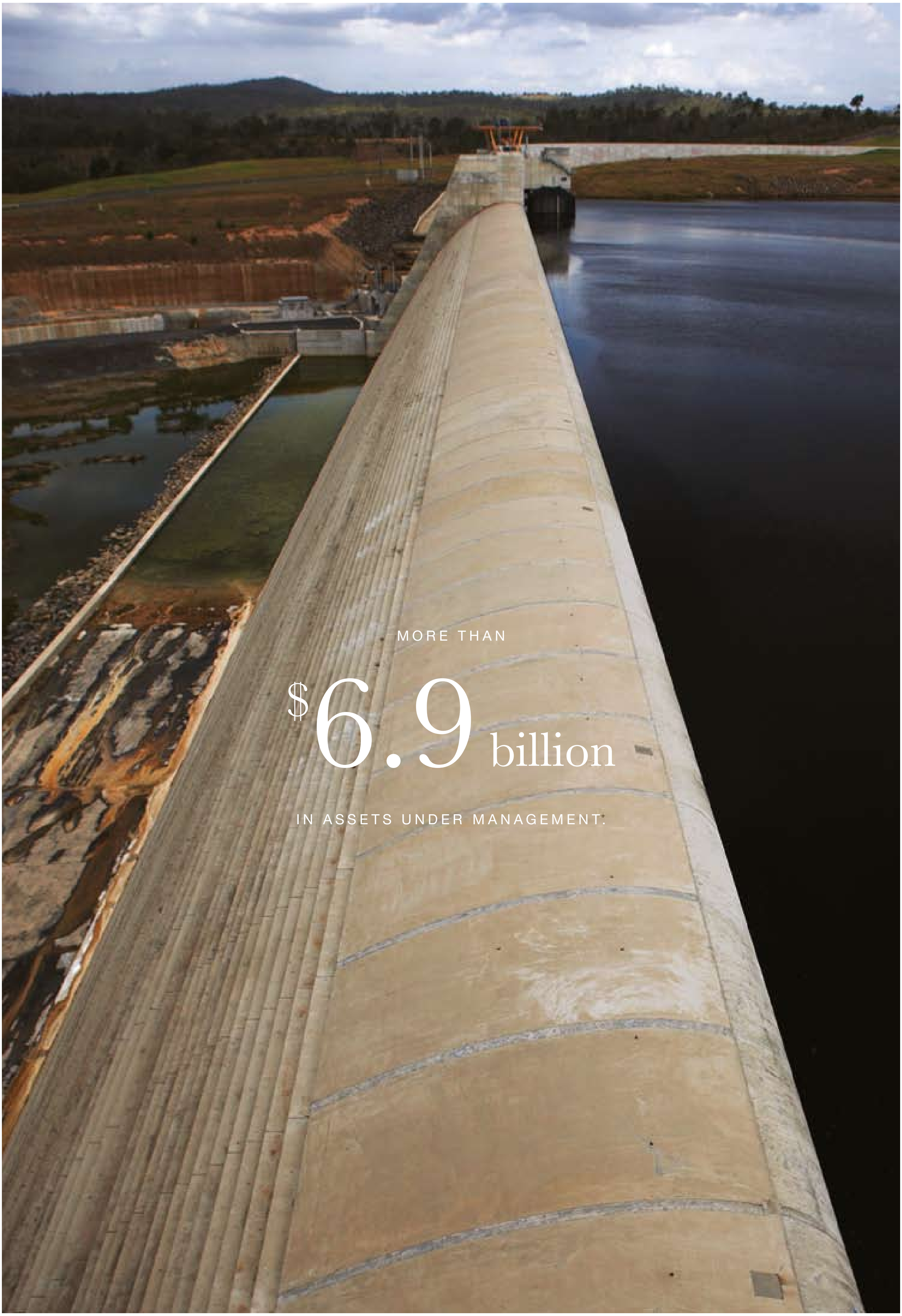
MORE THAN
$6.9 billion
IN ASSETS UNDER MANAGEMENT.

annual financial report

For the year ended 30 June 2008 • SunWater ABN 17 020 276 523

GENERAL INFORMATION

This financial report covers both SunWater as an individual entity and the consolidated entity consisting of SunWater and its subsidiaries. The financial report is presented in Australian currency.

SunWater is a statutory government owned corporation (GOC), established on 1 October 2000 under the provisions of the *Government Owned Corporations Act 1993*. Under the provisions of section 127 of the *Government Owned Corporations Act 1993*, SunWater is treated as a statutory body for the purposes of the *Financial Administration and Audit Act 1977.*

SunWater's head office and principal place of business is:
Level 9, 120 Edward Street
BRISBANE QLD 4000

SunWater owns and operates bulk water supply and distribution infrastructure located throughout regional Queensland and provides water-related engineering and facilities management services. Water is supplied to mining companies, industrial companies, power stations, manufacturing companies, irrigators, water boards and local governments.

This financial report is authorised for issue by the Board of SunWater on the date that the Management Certificate is signed by the board's Chair, the Chief Executive Officer and the General Manager Corporate. SunWater has the power to amend and reissue the financial report.

SunWater income statements

For the year ended 30 June 2008

		CONSOLIDATED		PARENT	
	NOTES	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Revenue	3	190,575	142,817	183,147	151,371
Expenses excluding finance costs	4	(149,517)	(117,598)	(143,351)	(128,119)
Finance costs	5	(15,169)	(5,088)	(13,611)	(4,690)
Profit/(loss) before income tax equivalents expense		**25,889**	**20,131**	**26,185**	**18,562**
Income tax equivalents expense/(income)	6	8,041	(8,031)	4,830	2,868
Profit/(loss) for the year		**17,848**	**28,162**	**21,355**	**15,694**

The above income statements should be read in conjunction with the accompanying notes.

SunWater statements of changes in equity

As at 30 June 2008

		CONSOLIDATED		PARENT	
	NOTES	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Total equity at the beginning of the financial year		441,635	419,643	367,771	358,247
Profit/(loss) for the year		17,848	28,162	21,355	15,694
Contributions of equity	22	6,170	-	6,170	-
Dividends	24	(5,897)	(6,170)	(5,897)	(6,170)
Total equity at the end of the financial year		459,756	441,635	389,399	367,771

The above statements of changes in equity should be read in conjunction with the accompanying notes.

SunWater balance sheets

As at 30 June 2008

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
ASSETS					
Current assets					
Cash	7	40,049	22,320	24,575	7,235
Receivables	8	11,294	9,757	11,524	10,251
Inventories	9	2,444	2,365	2,444	2,365
Other current assets	10	17,805	18,900	11,991	11,777
		71,592	53,342	50,534	31,628
Non-current assets classified as held for sale	11	29,877	66	29,877	-
Total current assets		**101,469**	**53,408**	**80,411**	**31,628**
Non-current assets					
Receivables	8	214	327	214	327
Other financial assets	12	-	-	72,668	72,668
Property, plant and equipment	13	615,387	639,529	518,554	539,892
Intangible assets	14	56,229	61,135	5,680	9,471
Deferred tax assets	15	22,194	34,425	19,217	27,178
Total non-current assets		**694,024**	**735,416**	**616,333**	**649,536**
Total assets		**795,493**	**788,824**	**696,744**	**681,164**
LIABILITIES					
Current liabilities					
Payables	16	18,545	18,043	18,485	36,669
Provisions	17	11,517	11,639	11,517	11,639
Borrowings	18	1,420	1,888	8,087	1,224
Other	19	10,309	9,253	10,302	9,225
Total current liabilities		**41,791**	**40,823**	**48,391**	**58,757**
Non-current liabilities					
Provisions	17	1,154	1,138	1,154	1,138
Borrowings	18	264,173	271,016	245,562	236,587
Other	19	-	1,404	-	1,404
Deferred tax liabilities	20	28,619	32,808	12,238	15,507
Total non-current liabilities		**293,946**	**306,366**	**258,954**	**254,636**
Total liabilities		**335,737**	**347,189**	**307,345**	**313,393**
Net assets		**459,756**	**441,635**	**389,399**	**367,771**
EQUITY					
Contributed equity	22	288,711	282,541	288,711	282,541
Retained profits	23	171,045	159,094	100,688	85,230
Total equity		**459,756**	**441,635**	**389,399**	**367,771**

The above balance sheets should be read in conjunction with the accompanying notes.

SunWater statements of cash flows

For the year ended 30 June 2008

	NOTES	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Cash flows from operating activities					
Inflows:					
Receipts from customers (inclusive of GST and refunded GST)		194,003	162,933	177,270	181,142
Community service obligations		10,288	8,392	10,288	8,392
Interest received		250	232	250	232
Income taxes refunded		-	500	-	500
Intercompany taxes received		-	-	554	1,803
Outflows:					
Payments to suppliers and employees (inclusive of GST)		(117,973)	(113,686)	(120,060)	(148,575)
Income taxes paid		-	(500)	-	(500)
Intercompany taxes paid		-	-	-	(555)
Net cash inflow (outflow) from operating activities	25	86,568	57,871	68,302	42,439
Cash flows from investing activities					
Inflows:					
Proceeds from sale of property, plant and equipment		20	181	20	181
Proceeds from term debtors		237	906	237	906
Interest received		2,150	1,109	1,133	485
Dividends received		-	-	11,000	7,000
Outflows:					
Payments for property, plant and equipment		(46,874)	(234,092)	(41,918)	(195,282)
Net cash inflow (outflow) from investing activities		(44,467)	(231,896)	(29,528)	(186,710)
Cash flows from financing activities					
Inflows:					
Proceeds from borrowing		15,000	181,700	15,000	149,500
Repayments of advances		-	2,000	-	-
Government grant		318	-	-	-
Dividend re-investment		6,170	-	6,170	-
Outflows:					
Interest paid		(18,284)	(11,733)	(16,213)	(10,464)
Repayment of borrowings		(21,406)	(1,257)	(20,221)	(1,150)
Dividends paid		(6,170)	-	(6,170)	-
Net cash inflow (outflow) from financing activities		(24,372)	170,710	(21,434)	137,886
Net increase (decrease) in cash held		17,729	(3,315)	17,340	(6,385)
Cash at the beginning of the financial year		22,320	25,635	7,235	13,620
Cash at the end of the financial year		**40,049**	**22,320**	**24,575**	**7,235**

The above statements of cash flows should be read in conjunction with the accompanying notes.

notes to the financial statements

30 June 2008

Note 1: Summary of significant accounting policies

The significant accounting policies that have been adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to the years presented unless otherwise stated. The financial report includes separate statements for SunWater (the parent entity) and the consolidated entity consisting of SunWater and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with the Australian Equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and Australian Accounting Interpretations.

The financial statements have been prepared on an accruals basis and are presented in Australian currency.

No Australian Accounting Standard that has been issued but is not yet effective has been applied to this financial report. When these accounting standards become effective, the following standards are expected to apply to SunWater's operations:

- AASB 8 *Operating Segments*
  Application of this standard will not affect any of the amounts recognised in the financial statements as this standard is concerned only with disclosures.
- AASB 101 *Presentation of Financial Statements*
  This revised standard does not have measurement or recognition implications. Instead, there will be changes to the presentation of SunWater's overall financial performance and position, particularly the content of the Statement of Changes in Equity, and preparation of a new Statement of Comprehensive Income.
- AASB 123 *Borrowing Costs*
  The main effect will be that all borrowing costs directly attributable to the acquisition, construction or production of "qualifying assets" (as defined in AASB 123) with commencement dates for capitalisation on or after 1 July 2009 will be capitalised into the acquisition cost of such assets. All other borrowing costs will be expensed. This will not impact SunWater's financial reports as borrowing costs are accounted for in this manner now.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated and parent entity financial statements and notes of the consolidated entity and parent entity comply with International Financial Reporting Standards (IFRS).

Historic cost convention

The historic cost convention has been applied except where otherwise stated.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting assumptions. It also requires management to exercise its judgement in the process of applying SunWater's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in notes 3 and 13.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the parent entity as at 30 June 2008 and the financial results of all subsidiaries at that date. The parent entity and its subsidiaries together are referred to in this financial report as the consolidated entity. Subsidiaries are those entities over which the parent entity has the power to govern the financial and operating policies. SunWater wholly owns all of its subsidiaries (refer note 12).

The balances and effects of all transactions between entities in the consolidated entity are eliminated in full. Where a subsidiary began or ceased to be controlled during the reporting period, the results are included only from the date control commenced or up to the date control ceased. Accounting policies of all subsidiaries are consistent with the accounting policies of the parent entity.

Investments in subsidiaries are accounted for at cost in the financial statements of the parent entity.

The consolidated entity has no investments in associates or joint ventures.

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, rebates, trade allowances and amounts collected on behalf of third parties.

Water revenue is recognised when water has been delivered to customers or, in cases where no water has been delivered, is accrued in accordance with contractual provisions.

Recognition of all other service revenue is based on work completed at the reporting date.

Electricity generation revenue is recognised on the amount of electricity generated at the reporting date.

Water allocations sales revenue is recognised at the point of sale.

Interest income is recognised as it accrues.

Realised gains on repayment of borrowings where market value is less than book value are recognised in revenue.

(d) Government grants

The parent entity received community service obligation (CSO) payments from the Queensland Government. The payments fund the Rural Water CSO in recognition of the current rural water pricing policies set by the government as well as certain other activities for which there are not any other revenue sources. These amounts are recorded as revenue from ordinary activities.

New rural water infrastructure assets or extensions to existing assets that are built by clear direction from government for other than commercial return may also incorporate a CSO component. These amounts are initially recorded as pre-paid revenue. Revenue is recognised on a systematic basis over the accounting periods in which the related assets' costs are recognised.

Water allocations are saleable rights that may be granted by the Crown, free of charge, in a Resource Operations Plan under the *Water Act 2000*. Interim water allocations (replacing water licences granted under previous legislation) and water allocations are recognised at nominal cost or deemed cost. All other water allocations granted free of charge are recognised, when granted, at fair value, which is deemed to be cost.

(e) Income tax

SunWater complies with the National Tax Equivalents Regime (NTER) in relation to income tax. Income tax equivalents expense (or income) for the period is the tax payable on the current period's taxable income adjusted by deferred tax expenses (or income) representing changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

SunWater and its wholly owned Australian-controlled subsidiaries have implemented the tax consolidation legislation as of 1 July 2003. Under that legislation, the head entity, SunWater, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax-consolidated group continues to be a stand-alone taxpayer in its own right.

notes to the financial statements *(continued)*

30 June 2008

Note 1: Summary of significant accounting policies *(continued)*

In addition to its own current and deferred tax amounts, SunWater also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax-consolidated group.

Assets or liabilities arising under tax-funding agreements with the tax-consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details about the tax-funding agreement are disclosed in note 6.

(f) Leases

Leases of property, plant and equipment where SunWater or a subsidiary, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Neither SunWater nor any of its subsidiaries has entered into any finance leases.

Leases in which a significant portion of the risks and rewards are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Lease income from operating leases is recognised in revenue on a straight-line basis over the lease term.

(g) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the identifiable net assets of the subsidiary acquired, the excess of fair value over cost is recognised directly in the consolidated income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

(h) Impairment of assets

Goodwill, and intangible assets that have an indefinite useful life such as water allocations, are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are assessed on an annual basis for indicators of impairment.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. In the case of SunWater's water infrastructure assets, which are not traded in an active market, value-in-use is used as recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Each of SunWater's water supply schemes is regarded as a cash-generating unit. Each hydro-electricity generating station is regarded as a cash-generating unit.

Non-financial assets (other than goodwill) that were impaired in a prior period are reviewed for possible reversal of the impairment at each reporting date.

(i) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(j) Receivables

(i) Current receivables

All trade receivables are recognised at the amounts receivable as they are due for settlement no more than 30 days from the invoice date. The collectibility of receivables is assessed at balance date with adequate provision made for doubtful debts. All known bad debts are written off. A provision for doubtful receivables is established when there is objective evidence that SunWater will not be able to collect all amounts due and owing. The amount of the provision is the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is not material. The amount of the provision is recognised in the income statement.

(ii) Term trade debtors

Term trade debtors represent the term sale of water allocations. Settlement on these debtors ranges from one to four years.

(k) Inventories

Materials and stores are valued at the lower of cost and net realisable value. Costs have been assigned to individual items of stock primarily on the basis of weighted average cost.

(l) Property, plant and equipment

Items of property, plant and equipment are carried at cost or deemed cost less accumulated depreciation and impairment losses. SunWater elected to exercise the option allowed under AASB 101 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* to adopt the fair value of an item of property, plant and equipment as its deemed cost. This means that all items of property, plant and equipment that had been revalued to fair value on or prior to 1 July 2005, the date of transition to AIFRS, were measured on the basis of deemed cost at that date. Subsequent acquisitions are carried at cost.

The cost of self-constructed items includes the direct cost of construction plus costs incidental to the acquisition, including all other costs incurred in preparing the assets ready for use, such as engineering design fees, an appropriate proportion of overheads and borrowing costs (refer note 5). The cost also includes the initial estimate of the costs of decommissioning the items and restoring the site on which they are located where such estimate is relevant and reliable in the context of the very long life of most of these items. Costs attributable to pre-feasibility activities and alternative approach assessments are expensed as incurred.

All items of property, plant and equipment acquired at a cost, or other value, in excess of $1,000 are capitalised in the year of acquisition. Assets under construction are recorded at cost and are not depreciated until they are held ready for use.

No threshold is applied to items within the infrastructure class of assets as these types of assets form a network. Adjustments or additions to existing infrastructure assets that are not in the nature of enhancements or replacements do not satisfy asset recognition criteria and are expensed on completion.

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(m) Depreciation and amortisation

Depreciation and amortisation is calculated on a straight-line basis so as to write off the cost or deemed cost of each depreciable asset, less its estimated residual value, progressively over its estimated useful life to the entity. Useful life to the entity is determined after considering a number of factors such as manufacturer's specifications, engineering life, climatic and geographic conditions and contractual life.

notes to the financial statements *(continued)*

30 June 2008

Note 1: Summary of significant accounting policies *(continued)*

For each class of depreciable asset, the following depreciation rates were used:

Asset class	Depreciation rates
Land	Land is not depreciated
Buildings and land improvements	1.27% to 20%
Plant and equipment	8% to 40%
Infrastructure	0.5% to 20%

(n) Non-current intangible assets

(i) Water allocations

Water allocations not held for sale are intangible assets that are valued at cost or deemed cost. SunWater elected to exercise the option allowed under AASB 101 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* to adopt the fair value of an intangible asset as its deemed cost. This means that all water allocations that had been revalued to fair value on or prior to 1 July 2005, the date of transition to AIFRS, were measured on the basis of deemed cost at that date. Subsequent acquisitions are carried at cost.

After initial recognition, water allocations may be revalued at their fair value being market value as evidenced by comparable sales, or independent valuation, or, where no reliable market value exists, the present value of net cash flows.

Water allocations held for sale are recognised at the lower of cost and net realisable value.

Water allocations have an indefinite life and are not amortised but are reviewed annually for indications of impairment. No recognition threshold is applied.

(ii) Software

Software has a finite life and is carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method. Amortisation rates for software vary from 20% to 33%.

(iii) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of SunWater's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to that entity. Where goodwill is less than $50,000, it is expensed in the same period in which it arises.

(o) Payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial period that are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Fees paid on the establishment of loan facilities, which are not incremental costs relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

(q) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

SunWater's borrowings are discrete to each project. Therefore, the amount of interest capitalised is the actual interest cost incurred on each loan account.

(r) Provisions

Provisions are recognised when SunWater:

- has a present legal or constructive obligation as a result of past events; and
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Provisions are not recognised for future operating losses. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

(s) Refurbishment annuity

A refurbishment annuity forms part of the approved irrigation price path for each water supply scheme, and is billed to irrigation customers as part of the normal water billing process. Under the irrigation price path, SunWater is obliged to set apart the annuity for the sole purpose of applying the funds to refurbishment activities on each particular water supply scheme. To give effect to this requirement, SunWater accounts for the annuity as unearned revenue upon billing until the funds have been applied to refurbishment activities at which point revenue is recognised.

Expenditures applied to refurbishment activities are immediately matched by recognising available annuity (unearned revenue) as income for each water supply scheme. Any unspent annuity at year end (unearned revenue) is carried as a current liability on the balance sheet.

(t) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages, salaries and annual leave due but unpaid at the reporting date are recognised at the remuneration rates expected to apply at the time of settlement and include related on-costs such as payroll tax, workers compensation premiums, long service leave levies and employer superannuation contributions.

(ii) Long service leave

SunWater is levied under the Queensland Government's long service leave scheme at rates determined by actuarial assessment. Levies are expensed in the period in which they are paid or payable. Amounts paid to employees for long service leave are claimed from the scheme as and when leave is taken.

No provision for long service leave entitlements is taken up in the financial statements as the liability is held on a whole-of-government basis.

(iii) Superannuation

Employer superannuation contributions are paid to Queensland Government superannuation schemes at rates determined by the State Actuary. Contributions are expensed in the period in which they are paid or payable. SunWater's obligation is limited to its contribution to the superannuation schemes. Therefore, no liability is recognised for superannuation benefits in these financial statements as the liability is held on a whole-of-government basis.

(u) Dividends

Provision is made for the amount of any dividend declared by the directors on or before the end of the financial year but not distributed at balance date.

(v) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of GST, unless GST is not recoverable from the Australian Taxation Office (ATO), in which case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities that are recoverable from, or payable to, the ATO are presented as operating cash flow.

notes to the financial statements *(continued)*

30 June 2008

Note 1: Summary of significant accounting policies *(continued)*

(w) Rounding of amounts

Amounts in the financial report and these accompanying notes have been rounded to the nearest thousand dollars or in certain cases to the nearest dollar.

Note 2: Financial risk management

SunWater's activities may, at certain times, expose it to a variety of financial risks being market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The objective of SunWater's financial risk management policies is to minimise potential adverse effects on SunWater's financial performance.

(a) Market risk

(i) Foreign exchange risk

During 2007–08, SunWater had no significant exposure to foreign exchange risk.

(ii) Price risk

During 2007–08, SunWater had no significant exposure to price risk.

(iii) Fair value interest rate risk

Refer to (d) below.

(b) Credit risk

SunWater has policies in place, and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount and on all counterparties to significant contracts. Cash is invested only with Queensland Treasury Corporation. During 2007–08, SunWater had no transactions involving derivative financial instruments.

At the balance sheet date there were no other significant concentrations of credit risk in respect to recognised financial instruments. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(c) Liquidity risk

SunWater has policies in place, and sufficient cash and short-term borrowing facilities are maintained, to ensure adequate funds are available at all times to meet SunWater's commitments as they arise.

(d) Cash flow and fair value interest rate risk

As SunWater has no significant interest-bearing assets, the income and operating cash flows are not materially exposed to changes in market interest rates.

SunWater's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose SunWater to cash flow interest rate risk, whereas borrowings issued at fixed rates expose SunWater to fair value interest-rate risk.

SunWater manages its interest rate risk in consultation with Queensland Treasury Corporation.

Note 3: Revenue

	CONSOLIDATED		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Irrigation water charges	39,880	42,557	39,157	41,792
Industrial water charges	83,728	45,222	63,536	31,290
Urban water charges	7,938	6,902	7,938	6,902
Drainage charges	1,202	1,158	1,202	1,158
Water allocations revenue	9,210	9,674	6,205	2,629
Consulting and facilities services revenue	30,516	22,803	37,125	46,930
Community service obligation	10,370	10,073	10,370	10,073
Grants	748	128	748	66
Electricity generation	545	580	545	580
Interest	2,372	1,294	1,354	670
Gain on settlement of loan	903	-	903	-
Gain on disposal of non-current assets	14	156	14	155
Dividends received	-	-	11,000	7,000
Rent received	1,069	757	1,069	757
Proceeds from sale of scrap	-	245	-	245
Proceeds from insurance settlement (1)	748	14	748	14
Other fees and charges	574	809	574	809
Other revenue	758	445	659	301
Total revenue	**190,575**	**142,817**	**183,147**	**151,371**

(1) *While insurance claims are yet to be finalised, the amount accrued in these financial statements represents the best information available at the date of this report. The final insurance settlement may differ from these amounts.*

Note 4: Expenses excluding finance costs

	CONSOLIDATED		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Depreciation and amortisation				
Land improvements and buildings	543	479	543	479
Plant and equipment	1,670	1,571	1,670	1,571
Water infrastructure	18,517	10,054	12,165	4,637
Software	1,965	2,551	1,965	2,551
Total depreciation and amortisation	22,695	14,655	16,343	9,238
Labour and on-costs	45,238	40,941	45,473	41,700
Contracted services	21,894	17,019	23,119	31,101
Electricity	14,976	14,243	14,370	13,511
Materials	4,685	4,074	4,870	8,529
Plant hire	5,323	981	5,341	1,210
Motor vehicle operating lease charges	2,352	2,544	2,352	2,544
IT charges	915	968	915	968
Bad and doubtful debts (1)	(608)	14	(608)	12
Loss on disposal of non-current assets	186	201	186	201
Travel	2,278	2,305	2,293	2,354
Accommodation	2,686	2,322	2,701	2,365
Insurance	4,117	3,563	3,819	3,239
Legal fees	795	975	1,001	1,155
Rates and land taxes	1,260	1,130	1,184	1,084
Telephone, facsimile and data lines	2,022	2,132	1,984	2,061
Remuneration of auditors (2)	82	125	68	108
Write-off of inventories	102	11	36	11
Cost of water allocations sold	1,115	3,632	-	-
Cost of goods sold	-	197	-	197
Impairment (notes 13, 14)	16,255	5,770	16,255	5,770
Other	1,149	(204)	1,649	761
Total expenses excluding finance costs	**149,517**	**117,598**	**143,351**	**128,119**

(1) *Provision for doubtful debts no longer required was written-back in 2008.*

(2) *Amounts received or due and receivable by the auditor of the consolidated entity related to the audit of the financial report of the parent entity and its subsidiaries. No other services were provided.*

notes to the financial statements *(continued)*

30 June 2008

Note 5: Finance costs

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Interest and finance charges paid/payable	18,754	12,981	16,629	11,609
Amount capitalised	(3,585)	(7,893)	(3,018)	(6,919)
Finance costs expensed	**15,169**	**5,088**	**13,611**	**4,690**

Note 6: Income tax and income tax equivalents

On 18 January 2007, Burnett Water Pty Ltd (a subsidiary company) received a positive ruling from the Australian Taxation Office. The ruling allows the SunWater group to access a write-off under Subdivision 40-F for the construction expenditure on a "water facility" incurred by Burnett Water Pty Ltd from 1 July 2004 to the acquisition date of 16 December 2005. The Subdivision 40-F write-off applies pro-rata over three years from the date of the expenditure. The total deduction available to the SunWater group over the three years is $89.987m, which is offset by a required reduction in the tax carrying value of water allocations and tax carrying value of water infrastructure established when the company entered the NTER upon acquisition by SunWater.

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
(a) Income tax equivalents expense/(income)				
Current tax equivalents expense/(income)	7,068	(10,645)	7,206	3,080
Deferred tax equivalents (income)	973	10,924	(2,376)	470
Over-provided in prior years	-	(8,310)	-	(682)
	8,041	**(8,031)**	**4,830**	**2,868**
Income tax equivalents expense/(income) is attributable to:				
Profit from continuing operations	8,041	(8,031)	4,830	2,868
Deferred tax equivalents expense/(income) included in income tax equivalents expense comprises:				
Decrease/(increase) in deferred tax assets (note 15)	5,162	(2,036)	893	(1,000)
(Decrease)/increase in deferred tax liabilities (note 20)	(4,189)	12,960	(3,269)	1,470
	973	**10,924**	**(2,376)**	**470**
(b) Numerical reconciliation of income tax equivalents expense to prima facie tax equivalents payable				
Profit from continuing operations before income tax equivalents expense	25,889	20,131	26,185	18,562
Tax at 30%	7,766	6,039	7,855	5,569
Tax effect of amounts that are not deductible/(taxable) in calculating taxable income:				
Entertainment expenses	25	4	25	4
Annuity	-	(41)	-	(41)
Dividends from subsidiaries	-	-	(3,300)	(2,100)
Sundry items	250	237	250	118
Prior year over-provision	-	(682)	-	(682)
Impact of the ATO tax ruling allowing a three-year write-off for the "water facility"	-	(19,150)	-	-
Finalisation of the reset cost base of trading stock on entry into the SunWater consolidated group	-	5,562	-	-
	8,041	(8,031)	4,830	2,868
Losses to be utilised in consolidated entity	-	-	-	-
Income tax equivalents expense	**8,041**	**(8,031)**	**4,830**	**2,868**

(c) Tax consolidation legislation

SunWater and its wholly owned subsidiaries have implemented the tax consolidation legislation as of 1 July 2003. The accounting policy in relation to this legislation is set out in note 1(e).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement that limits the joint and several liability of the wholly owned subsidiaries in the case of a default by the head entity, SunWater. New subsidiaries will enter into a similar agreement as soon as practicable after acquisition.

SunWater and its subsidiaries have also entered into tax funding agreements under which the subsidiaries fully compensate SunWater for any current tax payable assumed and are compensated by SunWater for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to SunWater under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the subsidiaries' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from SunWater, which is issued as soon as practicable after the end of each financial year. SunWater may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables (refer note 8).

Note 7: Cash and cash equivalents

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Cash on hand	17	21	17	21
Cash at bank	7,651	11,994	5,504	4,249
Deposits on call	32,381	10,305	19,054	2,965
	40,049	**22,320**	**24,575**	**7,235**

Note 8: Receivables

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Current				
Trade debtors	12,367	11,255	9,795	10,705
Term trade debtors	27	210	27	210
Intercompany receivables	-	-	-	490
Intercompany taxation receivables	-	-	2,802	554
	12,394	11,465	12,624	11,959
Less: Provision for doubtful debts	1,100	1,708	1,100	1,708
	11,294	**9,757**	**11,524**	**10,251**
Non-current				
Term trade debtors	**214**	**327**	**214**	**327**

Note 9: Inventories

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Materials and stores	**2,444**	**2,365**	**2,444**	**2,365**

notes to the financial statements *(continued)*

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Note 10: Other current assets

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
GST receivable	1,079	2,065	969	1,495
Prepayments	830	650	830	650
Advance to Burnett Dam Alliance	1,000	1,000	-	-
Other debtors	55	-	55	-
Accrued revenue (1)	14,841	15,185	10,137	9,632
	17,805	**18,900**	**11,991**	**11,777**

(1) *Includes water delivered to 30 June but not invoiced.*

Note 11: Non-current assets classified as held for sale

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Land	-	66	-	-
Buildings and land improvements (1)	1,238	-	1,238	-
Plant and equipment (1)	282	-	282	-
Water infrastructure (1)	24,699	-	24,699	-
Assets under construction (1)	1,700	-	1,700	-
Water allocations (1)	1,958	-	1,958	-
	29,877	**66**	**29,877**	**-**

(1) *See also notes 13, 14 and 32.*

Note 12: Other financial assets

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Shares in controlled entities – at cost	**-**	**-**	**72,668**	**72,668**

Information relating to the controlled entities is set out below.

NAME OF ENTITY	COUNTRY OF INCORPORATION	CLASS OF SHARES	EQUITY HOLDING 2008 %	EQUITY HOLDING 2007 %
North West Queensland Water Pipeline Pty Ltd	Australia	Ordinary	100	100
Eungella Water Pipeline Pty Ltd	Australia	Ordinary	100	100
Burnett Water Pty Ltd	Australia	Ordinary	100	100

During the 2005–06 financial year, SunWater acquired the name "SunWater Pty Ltd" from a liquidator in order to secure the name "SunWater" and protect the SunWater group's position. Subsequently, the name "SunWater Pty Ltd" has been applied to a shelf company, the shares (2 x $1.00) in which are owned by a legal firm awaiting further instructions to transfer the shares to SunWater. At 30 June 2008, the company was a non-operating shelf company.

On 1 July 2008, the company was converted to an unlisted public company limited by shares under the name "SunWater Limited" (see note 32), and on that date SunWater (a statutory GOC) made the transition to SunWater Limited (a company GOC).

Note 13: Property, plant and equipment

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Land (1)	8,296	8,234	8,296	8,234
Buildings and land improvements (1)	13,290	13,684	13,290	13,684
Less: accumulated depreciation	2,231	1,820	2,231	1,820
Total buildings and land improvements	11,059	11,864	11,059	11,864
Plant and equipment (1)	12,126	12,258	12,124	12,258
Less: accumulated depreciation	7,611	7,366	7,611	7,366
Total plant and equipment	4,515	4,892	4,513	4,892
Water infrastructure (1)	687,223	403,478	563,212	304,807
Less: accumulated depreciation	45,957	28,361	23,330	12,085
Less: accumulated impairment	83,229	67,006	78,379	62,156
Total water infrastructure	558,037	308,111	461,503	230,566
Assets under construction (1)	33,480	306,428	33,183	284,336
Total property, plant and equipment	**615,387**	**639,529**	**518,554**	**539,892**

(1) *At cost or deemed cost.*

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of 2007–08 are set out below.

	LAND $'000	BUILDINGS & LAND IMPROVE-MENTS $'000	PLANT & EQUIP-MENT $'000	WATER INFRA-STRUCTURE $'000	ASSETS UNDER CONSTR-UCTION $'000
Consolidated					
Carrying amount at 1 July 2007	8,234	11,864	4,892	308,111	306,428
Additions	62	978	1,712	309,419	41,035
Disposals	-	(2)	(137)	(51)	-
Transfer between classes	-	-	-	-	(312,283)
Transfer to non-current assets held for sale (note 11)	-	(1,238)	(282)	(24,699)	(1,700)
Depreciation expense (note 4)	-	(543)	(1,670)	(18,517)	-
Impairment loss (note 4)	-	-	-	(37,585)	-
Impairment losses reversed (note 4)	-	-	-	21,359	-
Carrying amount at 30 June 2008	**8,296**	**11,059**	**4,515**	**558,037**	**33,480**

notes to the financial statements *(continued)*

30 June 2008

Note 13: Property, plant and equipment *(continued)*

	LAND $'000	BUILDINGS & LAND IMPROVE-MENTS $'000	PLANT & EQUIP-MENT $'000	WATER INFRA-STRUCTURE $'000	ASSETS UNDER CONSTR-UCTION $'000
Parent					
Carrying amount at 1 July 2007	8,234	11,864	4,892	230,566	284,336
Additions	62	978	1,710	284,078	37,487
Disposals	-	(2)	(137)	(51)	-
Transfer between classes	-	-	-	-	(286,940)
Transfer to non-current assets held for sale (note 11)	-	(1,238)	(282)	(24,699)	(1,700)
Depreciation expense (note 4)	-	(543)	(1,670)	(12,165)	-
Impairment loss (note 4)	-	-	-	(37,585)	-
Impairment losses reversed (note 4)	-	-	-	21,359	-
Carrying amount at 30 June 2008	**8,296**	**11,059**	**4,513**	**461,503**	**33,183**

Key assumptions and estimates

Key assumptions and estimates concerning the future are made when assessing the value-in-use of water infrastructure assets using the net present value of future cash flows derived from each cash-generating unit. Value-in-use is taken to be the recoverable amount in respect to cash-generating units comprising water infrastructure assets.

Significant factors influencing the assessment of value-in-use include the following:

- SunWater applied its pre-tax weighted average cost of capital (WACC) as the discount rate. WACC includes a market-determined rate that reflects the risks associated with operating the business. The risk-free component of WACC takes into account the forward-looking long-term average expected gross domestic product growth, and the forward-looking, long-term average expected inflation.
- As a natural monopoly, there is not an open market for the water infrastructure owned by SunWater.
- Water charges applied to irrigators are regulated by the Queensland Government, which subsidises water prices by way of community service obligation payments for the regulated pricing shortfall incurred against forecast efficient costs of storage and distribution of water for irrigation purposes. As the regulated price does not provide for a commercial return on capital, the resulting cash flows substantially impact on the values assigned to the water infrastructure assets.
- The cash flow projections employ prices for irrigation in the medium to longer term based on the currently approved pricing arrangements.
- The cash flow projections anticipate that business efficiencies will be achieved over time to meet benchmarked costs and that future price paths will recover efficient costs.

Note 14: Intangible assets

	CONSOLIDATED 2008 $'000	2007 $'000	PARENT 2008 $'000	2007 $'000
Software (1)	11,625	11,468	11,625	11,468
Less accumulated amortisation	9,811	7,853	9,811	7,853
Less accumulated impairment	695	663	695	663
	1,119	2,952	1,119	2,952
Trade names	8	8	8	8
Water allocations (1)	55,102	58,175	4,553	6,511
	56,229	**61,135**	**5,680**	**9,471**

(1) *At cost or deemed cost.*

Reconciliations

Reconciliations of the carrying amounts of intangible assets at the beginning and end of 2007–08 are set out below.

	SOFTWARE $'000	TRADE NAMES $'000	WATER ALLOCATIONS $'000
Consolidated			
Carrying amount at 1 July 2007	2,952	8	58,175
Sales (note 4)	-	-	(1,115)
Additions – at cost	164	-	-
Transfer to non-current assets held for sale (note 11)	-	-	(1,958)
Amortisation expense (note 4)	(1,965)	-	-
Impairment loss (note 4)	(32)	-	-
Carrying amount at 30 June 2008 (1)	**1,119**	**8**	**55,102**

	SOFTWARE $'000	TRADE NAMES $'000	WATER ALLOCATIONS $'000
Parent			
Carrying amount at 1 July 2007	2,952	8	6,511
Additions – at cost	164	-	-
Transfer to non-current assets held for sale (note 11)	-	-	(1,958)
Amortisation expense (note 4)	(1,965)	-	-
Impairment loss (note 4)	(32)	-	-
Carrying amount at 30 June 2008 (1)	**1,119**	**8**	**4,553**

(1) *Net of retirements (fully written down)*

notes to the financial statements *(continued)*

30 June 2008

Note 15: Deferred tax assets

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
The balance comprises temporary differences attributable to:				
Provision for doubtful debts	330	513	330	513
Property, plant and equipment	2,977	3,742	-	-
Accrued payables	71	51	71	46
Accrued employee benefits	1,494	1,624	1,494	1,624
Provision for environmental obligations	-	17	-	17
Provision for lease make-good	192	-	192	-
Provision for Rocklea land commitment	346	341	346	341
Unearned renewal annuity	2,978	2,682	2,978	2,682
Unearned community service obligations	-	421	-	421
Tax losses previously recognised	10,866	3,079	10,866	3,079
BWPL ruling balance	-	3,500	-	-
Balance before current year tax losses	19,254	15,970	16,277	8,723
Tax losses recognised in current year	-	18,455	-	18,455
Tax losses transferred in current year	2,940	-	2,940	-
Balance at 30 June	**22,194**	**34,425**	**19,217**	**27,178**

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Movements:				
Opening balance at 1 July	34,425	13,935	27,178	7,723
Credited/(charged) to the income statement	(5,162)	2,036	(893)	1,000
Tax losses recognised in current year	-	18,454	-	18,455
Losses utilised to offset current tax payable	(7,069)	-	(7,068)	-
Closing balance at 30 June	22,194	34,425	19,217	27,178
Deferred tax assets to be recovered after more than 12 months	20,107	32,237	17,322	24,995
Deferred tax assets to be recovered within 12 months	2,087	2,188	1,895	2,183
Closing balance at 30 June	**22,194**	**34,425**	**19,217**	**27,178**

Note 16: Payables

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Trade creditors	4,495	2,494	4,188	2,495
Intercompany taxation payables	-	-	2,940	21,907
Other creditors and accruals	14,050	15,549	11,357	12,267
	18,545	**18,043**	**18,485**	**36,669**

Note 17: Provisions

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Current				
Employee benefits (note 21)	4,980	5,414	4,980	5,414
Environmental obligations	-	55	-	55
Tenancy obligations	640	-	640	-
Dividends	5,897	6,170	5,897	6,170
	11,517	**11,639**	**11,517**	**11,639**
Non-current				
Land commitment [(1)]	1,154	1,138	1,154	1,138
	1,154	**1,138**	**1,154**	**1,138**

[(1)] *By way of an agreement between the former State Water Projects and the Department of Natural Resources and Water, SunWater is required to settle with the department the disposition of certain surplus land.*

Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below.

	ENVIRONMENTAL OBLIGATIONS $'000	TENANCY OBLIGATIONS $'000	LAND COMMITMENT $'000
Consolidated			
Carrying amount at 1 July 2007	55	-	1,138
Provisions added/(written back)	(55)	640	16
Payments made during the year	-	-	-
Carrying amount at 30 June 2008	**-**	**640**	**1,154**
Parent			
Carrying amount at 1 July 2007	55	-	1,138
Provisions added/(written back)	(55)	640	16
Payments made during the year	-	-	-
Carrying amount at 30 June 2008	**-**	**640**	**1,154**

Note 18: Borrowings

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Unsecured [(1)]				
Queensland Treasury Corporation loan	265,593	272,904	231,686	237,810
Intercompany loan	-	-	21,963	-
	265,593	**272,904**	**253,649**	**237,811**
Represented by:				
Current	1,420	1,888	8,087	1,224
Non-current	264,173	271,016	245,562	236,587
	265,593	**272,904**	**253,649**	**237,811**

[(1)] *Borrowings by subsidiary company are secured by parent entity guarantee.*

notes to the financial statements *(continued)*

30 June 2008

Note 19: Other liabilities

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Current				
Deposits payable	367	265	360	265
Commitment fee [1]	-	28	-	-
Unearned annuity	9,929	8,942	9,929	8,942
Other	13	18	13	18
	10,309	**9,253**	**10,302**	**9,225**
Non-current				
Unearned CSO	-	1,404	-	1,404
	-	**1,404**	**-**	**1,404**

[1] *This fee, paid as a commitment fee for supply of water, was earned over 10 years from 21 October 1997, the commencement date of the water-supply contract.*

Note 20: Deferred tax liabilities

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
The balance comprises temporary differences attributable to:				
Accrued interest receivable	93	35	66	22
Inventories	133	674	133	667
Accrued revenue	4,090	4,338	2,379	1,902
Water allocations	7,992	8,126	1,953	1,953
Property, plant and equipment	16,311	19,635	7,707	10,963
Balance at 30 June	**28,619**	**32,808**	**12,238**	**15,507**
Movements:				
Opening balance at 1 July	32,808	19,848	15,507	14,036
Charged/(credited) to the income statement	(4,189)	12,960	(3,269)	1,471
Closing balance at 30 June	**28,619**	**32,808**	**12,238**	**15,507**
Deferred tax liabilities to be settled after more than 12 months	24,303	27,761	9,660	12,916
Deferred tax liabilities to be settled within 12 months	4,316	5,047	2,578	2,591
Closing balance at 30 June	**28,619**	**32,808**	**12,238**	**15,507**

Note 21: Employee benefits

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Employee benefits liability				
Provision for employee benefits (note 17)	4,980	5,414	4,980	5,414
Accrued salaries and wages (note 16)	1,105	813	1,105	813
Aggregate employee benefits liability	**6,085**	**6,227**	**6,085**	**6,227**

Employee numbers				
Number of employees (full-time equivalents excluding casuals) as at 30 June	**573**	**569**	**573**	**569**

Note 22: Contributed equity

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
(a) Share capital				
Issued and paid-up capital:				
2 ordinary shares of $144.356 million each [1]	**288,711**	**282,541**	**288,711**	**282,541**

[1] *Shares have no par value.*

	NUMBER OF SHARES	CONTRIBUTION PER SHARE $'000	TOTAL $'000
(b) Movements in ordinary share capital			
Opening balance 1 July 2007	2	141,271	282,541
Equity injection		3,085	6,170
Closing balance 30 June 2008	**2**	**144,356**	**288,711**

Note 23: Retained profits

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Movements:				
Balance 1 July	159,094	137,102	85,230	75,706
Net profit/(loss) attributable to members of SunWater	17,848	28,162	21,355	15,694
Dividends declared	(5,897)	(6,170)	(5,897)	(6,170)
Balance 30 June	**171,045**	**159,094**	**100,688**	**85,230**

Note 24: Dividends

	PARENT 2008 $'000	PARENT 2007 $'000
Ordinary shares		
2007 first and final dividend of $3.085 million per share declared [1]	-	6,170
2008 first and final dividend of $2.9485 million per share declared [1]	5,897	-
	5,897	**6,170**

[1] *Franking does not apply to SunWater as an NTER entity because the shareholders represent the Queensland Government.*

notes to the financial statements *(continued)*

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Note 25: Reconciliation of profit after income tax equivalents to net cash inflow from operating activities

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
Profit for the year	17,848	28,162	21,355	15,694
Depreciation and amortisation	22,695	14,655	16,343	9,238
Impairment	16,255	5,770	16,255	5,770
Bad and doubtful debts	(608)	14	(608)	12
Net loss on sale or disposal of non-current assets	172	45	172	46
Interest income	(2,150)	(1,294)	(1,133)	(670)
Interest paid	18,284	11,733	16,213	10,464
Gain on loan settlement	(903)	-	(903)	-
Dividends received	-	-	(11,000)	(7,000)
Change in assets and liabilities:				
(Increase)/decrease in inventories	1,101	3,792	(79)	160
(Increase)/decrease in deferred tax assets	12,231	(20,491)	7,961	(19,455)
(Increase)/decrease in receivables	(6,789)	(14,299)	(1,451)	6,307
(Increase)/decrease in other assets	3,468	3,993	591	5,201
(Decrease)/increase in creditors	7,326	11,311	6,695	13,596
(Decrease)/increase in deferred revenue	1,827	2,020	1,160	2,106
(Decrease)/increase in income taxes payable	-	(500)	-	(500)
(Decrease)/increase in deferred tax liabilities	(4,189)	12,960	(3,269)	1,470
Net cash inflow from operating activities	**86,568**	**57,871**	**68,302**	**42,439**

Note 26: Commitments for expenditure

	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	PARENT 2008 $'000	PARENT 2007 $'000
(a) Capital expenditure commitments				
Capital expenditure commitments (including GST) contracted for but not brought to account are as follows:				
ICT projects	178	-	178	-
Water infrastructure projects	8,299	16,691	8,299	16,691
	8,477	**16,691**	**8,477**	**16,691**
Payable:				
Not later than one year	**8,477**	**16,691**	**8,477**	**16,691**
(b) Non-cancellable operating lease expense commitments				
Future operating lease commitments (including GST) not brought to account and payable:				
Within one year	2,560	1,806	2,560	1,806
Later than one year but not later than five years	12,283	1,141	12,283	1,141
Later than five years	18,845	-	18,845	-
	33,688	**2,947**	**33,688**	**2,947**

SunWater leases property under non-cancellable operating leases expiring from one to ten years. Leases generally provide SunWater with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based either on movements in the consumer price index or operating criteria.

Future projects and acquisitions

SunWater has been appointed by the State Government as proponent for the development of business cases for a range of water infrastructure projects. In addition, SunWater has made in-principle commitments to investigate certain major capital projects and acquisitions. However, these projects and acquisitions are at a very early stage and final costs cannot be accurately quantified at this time.

Details of SunWater's dam spillways upgrade program are disclosed in note 31.

Note 27: Financial instruments

(a) Credit risk exposure

The maximum exposure to credit risk at balance date in relation to each class of recognised financial assets is the gross carrying amount of those assets inclusive of any provisions for impairment.

The following table represents SunWater's maximum exposure to credit risk based on contractual amounts net of any allowances:

MAXIMUM EXPOSURE TO CREDIT RISK CATEGORY	NOTE	2008 $'000	2007 $'000
Consolidated			
Cash and cash equivalents	7	40,049	22,320
Receivables – current	8	11,294	9,757
Receivables – non-current	8	214	327
Advance to Burnett Dam Alliance	10	1,000	1,000
		52,557	**33,404**
Parent			
Cash and cash equivalents	7	24,575	7,235
Receivables – current	8	11,524	10,251
Receivables – non-current	8	214	327
		36,313	**17,813**

Collateral in the form of insurance bonds is held as security for the advance to Burnett Dam Alliance.

No financial assets and financial liabilities have been offset and presented net in the Balance Sheet.

The method for calculating any provisional impairment for credit risk is based on past experience, current and expected changes in economic conditions and changes in client credit ratings.

The ageing of SunWater's trade receivables at the reporting date was:

	GROSS 2008 $'000	IMPAIRMENT 2007 $'000	GROSS 2008 $'000	IMPAIRMENT 2007 $'000
Consolidated				
Not past due	9,780	-	8,125	-
Past due 0–30 days	833	17	1,563	149
Past due 31–60 days	500	123	955	70
More than 60 days	1,495	960	1,149	1,489
	12,608	**1,100**	**11,792**	**1,708**
Parent				
Not past due	7,217	-	8,585	-
Past due 0–30 days	833	17	1,565	149
Past due 31–60 days	500	123	426	70
More than 60 days	1,486	960	1,156	1,489
	10,036	**1,100**	**11,732**	**1,708**

notes to the financial statements *(continued)*

30 June 2008

Note 27: Financial instruments *(continued)*

(b) Liquidity risk

The following table sets out the liquidity risk of financial liabilities held by SunWater. It represents the contractual maturity of financial liabilities, calculated based on undiscounted cash flows.

	CARRYING AMOUNT $'000	LESS THAN 1 YEAR $'000	1–5 YEARS $'000	OVER 5 YEARS $'000	TOTAL CONTRACTUAL CASH FLOWS $'000
Consolidated – 2008					
Payables	18,545	18,545	-	-	18,545
Borrowings – Queensland Treasury Corporation	265,593	19,407	77,615	267,238	364,260
Deposits payable	367	77	25	265	367
Other	13	13	-	-	13
	284,518	**38,042**	**77,640**	**267,503**	**383,185**
Parent – 2008					
Payables	18,485	18,485	-	-	18,485
Borrowings – Queensland Treasury Corporation	231,686	15,706	62,880	231,687	310,273
Intercompany loan	21,963	8,087	13,876	-	21,963
Deposits payable	360	70	25	265	360
Other	13	13	-	-	13
	272,507	**42,361**	**76,781**	**231,952**	**351,094**

	CARRYING AMOUNT $'000	LESS THAN 1 YEAR $'000	1–5 YEARS $'000	OVER 5 YEARS $'000	TOTAL CONTRACTUAL CASH FLOWS $'000
Consolidated – 2007					
Payables	18,043	18,043	-	-	18,043
Borrowings	272,904	22,474	87,995	254,320	364,789
Deposits payable	265	71	25	169	265
Other	18	18	-	-	18
	291,230	**40,606**	**88,020**	**254,489**	**383,115**
Parent – 2007					
Payables	36,669	36,669	-	-	36,669
Borrowings – Queensland Treasury Corporation	237,810	17,094	66,652	232,500	316,246
Deposits payable	265	71	25	169	265
Other	18	18	-	-	18
	274,762	**53,852**	**66,677**	**232,669**	**353,198**

(c) Market risk

The following interest rate sensitivity analysis assumes that the rate would be held constant over the financial year, with the change occurring at the beginning of the financial year.

At reporting date, if the interest rates had been 100 basis points lower, SunWater would have a net profit increase of $2.032 million (2007: increase $0.680 million). If the interest rates had been 100 basis points higher, SunWater would have had a net profit decrease of $2.032 million (2007: decrease $0.680 million).

SunWater's sensitivity to interest has increased in the current period due to increased borrowings for new capital works projects.

		2008 INTEREST RATE RISK			
	CARRYING AMOUNT $'000	–1% PROFIT $'000	–1% EQUITY $'000	+1% PROFIT $'000	+1% EQUITY $'000
Consolidated					
Financial Instruments					
Cash	40,049	(283)	(283)	283	283
Queensland Treasury Corporation borrowings	265,593	2,315	2,315	(2,315)	(2,315)
Overall effect on profit and equity		**2,032**	**2,032**	**(2,032)**	**(2,032)**

		2007 INTEREST RATE RISK			
	CARRYING AMOUNT $'000	–1% PROFIT $'000	–1% EQUITY $'000	+1% PROFIT $'000	+1% EQUITY $'000
Consolidated					
Financial Instruments					
Cash	22,320	(184)	(184)	184	184
Queensland Treasury Corporation borrowings	272,904	864	864	(864)	(864)
Overall effect on profit and equity		**680**	**680**	**(680)**	**(680)**

Note 28: Related parties disclosures

Remuneration policy

Director and executive remuneration is approved by the Governor-in-Council in accordance with the requirements of the *Government Owned Corporations Act 1993*. During the year, a performance pay system for senior executives was approved, to take effect in the 2008–09 financial year.

Compensation disclosures by category

CATEGORY	2008 $'000	2007 $'000
Consolidated		
Short-term employee benefits	1,381	1,191
Post-employment benefits	158	144
Total	**1,539**	**1,335**

CATEGORY	2008 $'000	2007 $'000
Parent		
Short-term employee benefits	1,350	1,185
Post-employment benefits	155	144
Total	**1,505**	**1,329**

Compensation – directors

NAME OF DIRECTOR	SHORT-TERM EMPLOYEE BENEFITS $'000	POST-EMPLOYMENT BENEFITS $'000	TOTAL $'000
Consolidated – 2008			
Phil Hennessy, Chair	55	5	60
Jane Bertelsen, Deputy Chair	35	3	38
Julie Boyd	26	2	28
Tom Connor	28	3	31
John Gibson	32	3	35
Alan Millhouse	29	2	31
Greg Moynihan	22	2	24

notes to the financial statements *(continued)*

30 June 2008

Note 28: Related parties disclosures *(continued)*

NAME OF DIRECTOR	SHORT-TERM EMPLOYEE BENEFITS $'000	POST-EMPLOYMENT BENEFITS $'000	TOTAL $'000
Consolidated – 2007			
Phil Hennessy, Chair	46	4	50
Jane Bertelsen, Deputy Chair	29	3	32
Julie Boyd	23	2	25
Mary Maher (retired 31 March 2007)	18	2	20
Tom Connor	24	2	26
John Gibson	30	2	32
Alan Millhouse	25	2	27

NAME OF DIRECTOR	SHORT-TERM EMPLOYEE BENEFITS $'000	POST-EMPLOYMENT BENEFITS $'000	TOTAL $'000
Parent – 2008			
Phil Hennessy, Chair	48	4	52
Jane Bertelsen, Deputy Chair	27	2	29
Julie Boyd	23	2	25
Tom Connor	25	2	27
John Gibson	28	3	31
Alan Millhouse	25	2	27
Greg Moynihan	20	2	22

NAME OF DIRECTOR	SHORT-TERM EMPLOYEE BENEFITS $'000	POST-EMPLOYMENT BENEFITS $'000	TOTAL $'000
Parent – 2007			
Phil Hennessy, Chair	43	4	47
Jane Bertelsen, Deputy Chair	27	3	30
Julie Boyd	22	2	24
Mary Maher (retired 31 March 2007)	18	2	20
Tom Connor	23	2	25
John Gibson	29	2	31
Alan Millhouse	24	2	26

Directors' remuneration excludes insurance premiums (exclusive of GST) of $65,970 (2007 – $60,750) paid by the parent entity in respect of directors' and officers' liability insurance contracts, as the contracts do not specify premiums paid in respect of individual directors and officers.

Compensation – executives

TITLE OF EXECUTIVE	SHORT-TERM EMPLOYEE BENEFITS $'000	POST-EMPLOYMENT BENEFITS $'000	TOTAL $'000
Parent – 2008			
Chief Executive Officer	320	38	358
Chief Operating Officer	233	28	261
General Manager, Corporate	204	23	227
General Manager, Water Services (completed service 4/7/2008)	198	25	223
General Manager, Water Services (appointed 21/5/2008)	20	2	22
General Manager, Asset Solutions	179	22	201

TITLE OF EXECUTIVE	SHORT-TERM EMPLOYEE BENEFITS $'000	POST-EMPLOYMENT BENEFITS $'000	TOTAL $'000
Parent – 2007			
Chief Executive Officer	258	33	291
General Manager, Corporate	194	25	219
General Manager, Water Supply Services	182	23	205
General Manager, Operations and Maintenance	181	23	204
General Manager, Engineering Services	181	23	204

Transactions with director-related entities

(i) SunWater used the consulting services of KPMG, a firm of which Mr Phil Hennessy is a partner. Total value of the consulting services (inclusive of GST) was $68,377 (2007 – $161,930). The services were procured on a commercial basis in accordance with board-approved processes and the State Purchasing Policy.

(ii) SunWater provided consulting services and supplied office accommodation to Western Corridor Recycled Water Pty Ltd, a State of Queensland controlled company of which Mr Phil Hennessy is a director. SunWater entered commercial arrangements with Western Corridor Recycled Water Pty Ltd prior to the appointment, in May 2007, of Mr Hennessy as a director of the company. Total value of goods and services provided by SunWater (inclusive of GST) was $10,344,069 (2007 – $898,089).

(iii) SunWater and its controlled entities used the legal services of Allens Arthur Robinson, a firm of which Mr Alan Millhouse is a partner. During the period of Mr Millhouse's directorship, total value of the legal services (inclusive of GST) was $92,697 (2007 – $220,326). The services were procured on a commercial basis in accordance with board-approved processes and the State Purchasing Policy.

Transactions with subsidiaries

The parent entity within the group is SunWater. Interests in subsidiaries are set out in note 12. All transactions with subsidiaries are carried out under normal commercial terms and conditions or at cost. No transactions occurred between subsidiaries.

The following transactions occurred between the parent entity and its subsidiaries:

	2008 $'000	2007 $'000
Sales of water to subsidiaries	3,853	3,708
Sales of services to subsidiaries	6,611	24,164
Current tax payable assumed from tax consolidated subsidiaries	2,802	554
Current tax losses assumed from tax consolidated subsidiaries	2,940	21,907
Dividends received from subsidiaries	11,000	7,000
Loan received from subsidiary	21,963	-

The following balances are outstanding at the reporting date in relation to transactions with subsidiaries:

	2008 $'000	2007 $'000
Receivables (note 8)	2,802	1,044
Payables (note 16)	2,940	21,915

Transactions with entities subject to common control

All State of Queensland-controlled entities are related parties for the purposes of AASB 124 *Related Party Disclosures*. In its normal commercial business activities, SunWater transacts with Queensland Government departments, statutory bodies, other GOCs and local government bodies. All material transactions are negotiated on terms equivalent to those that prevail in arm's-length transactions or in accordance with government policy.

notes to the financial statements *(continued)*

30 June 2008

Note 28: Related parties disclosures *(continued)*

The value of these related party transactions and balances, as reported in the financial statements, on an accruals basis, is:

FINANCIAL STATEMENT ITEM	NATURE OF TRANSACTION	2008 $'000	2007 $'000
Cash (note 7)	Deposits on call	32,381	10,305
Receivables (note 8)	Water sales	1,394	4,493
Receivables (note 8)	Consultancies	5,522	1,298
Receivables (note 8)	Sale of goods, rent	94	332
Borrowings (note 18)	QTC borrowings	265,593	272,904
Payables (note 16)	Electricity, regulatory charges	1,015	1,048
Contributed equity (note 22)	Equity contributions from shareholders	6,170	-
Dividends (note 24)	Dividends declared	5,897	6,170
Revenue – interest (note 3)	Interest received from QTC	1,891	816
Revenue – all other (note 3)	Water sales, CSO, grants	29,278	35,825
Revenue – consulting fees (note 3)	Consultancies	31,161	7,724
Revenue – other revenue (note 3)	Sale of goods, rent	564	567
Expense – cost of goods sold (note 4)	Sale of sheet piling	-	197
Expense – interest (note 5)	Interest paid to QTC	18,360	12,700
Expense – all other (note 4)	Electricity, regulatory charges	34,610	32,137

Note 29: Contingencies

SunWater was directed by the Treasurer of Queensland under section 68 of the *South East Queensland Water (Restructuring) Act 2007* to indemnify the Queensland Bulk Water Supply Authority in relation to assets transferred on 1 July 2008 (see note 32). This indemnity may give rise to claims on SunWater if any of the conditions are triggered. At the date of this report, there are no known claims or circumstances which would give rise to a claim under the indemnity.

SunWater is currently constructing a pipeline for a listed company customer. The project has not yet achieved practical completion, and in accordance with group accounting policies, the pipeline and associated works is carried at cost, and classified as assets under construction in the financial statements.

The customer has recently advised that it is experiencing operational difficulties with the throughput of its plant, and is undertaking a detailed operational and financial review to determine the factors limiting the operation and the future of the operation, including potential expansion of processing capacity and additional funding arrangements. The customer expects to receive a report of the outcomes of the review in September, and until the customer further communicates its intentions, it is not possible to determine the impact, if any, on the future of the pipeline operations and its carrying value in the financial statements of the company. In its advice, the customer confirmed that its water requirements have been met throughout the period. SunWater holds substantial bank guarantees and carries certain insurances which provide support for its position.

At 30 June 2008, SunWater was engaged in commercial disputes under various contracts. None of those disputes has resulted in legal action at the date of this report; however, it is not possible to reliably estimate the eventual outcome of these disputes or the financial consequences thereof.

During the year, an audit of Paradise Dam under the *Environment Protection and Biodiversity Conservation Act 1999* was carried out by the Department of the Environment, Heritage, Water and the Arts (DEHWA). The findings of the DEHWA report were that Paradise Dam was not fully compliant due to drought conditions that have prevented the downstream fishway becoming operational. SunWater will continue to work with DEHWA as the results of the environmental monitoring become available.

Note 30: Segment information

SunWater and its subsidiaries form a single business segment, providing a range of water-related services that are subject to similar risks and returns. SunWater operates predominantly in one geographic segment, being Queensland. Operations outside Queensland are not material.

Note 31: Dam spillways

In 2006–07, SunWater carried out a program of dam spillway adequacy reviews in response to revised scientific data which indicates that possible maximum rainfall estimates and resulting flood peaks in various catchments have generally increased from previous estimates. The program, which has been and will continue to be subject to expert external scrutiny, has now identified a number of dams that will require upgrade, and those upgrades have been prioritised within an upgrades program. Funding for the first four upgrades has been secured from the Queensland Government, and SunWater continues to negotiate appropriate funding arrangements with the Queensland Government for the remainder of the program of works.

As part of the program, the upgrades of the spillways at Fred Haigh Dam and Bjelke-Petersen Dam were completed within budget, and the partially complete Borumba Dam spillway upgrade was transferred to SEQW as part of the water infrastructure transfer directed by the government on 1 July 2008.

The regulator issued new guidelines during 2006–07 for minimum requirements for spillway capacity of large dams, which are of a lower standard than the nationally recognised ANCOLD standards adopted by SunWater after taking expert advice. SunWater is reviewing its position, including legal advice, and will continue negotiations with the government.

At this time, it is not possible to quantify either the complete scope of works or the likely cost; however, the final two dams in the first phase of upgrades are:

NAME OF DAM	COMMENCEMENT OF WORKS	ESTIMATED COST
Tinaroo Falls Dam	2008–09	$19.6 million (funded)
Wuruma Dam	2009–10	$1.1 million (funding being negotiated)

Note 32: Subsequent events

(i) Queensland Bulk Water Supply Authority acquisition of assets

Under the *South East Queensland Water (Restructuring) Act 2007*, SunWater was directed by the Treasurer of Queensland to transfer certain water infrastructure, plant and equipment, and buildings and land improvements assets were transferred to the Queensland Bulk Water Supply Authority on 1 July 2008. The assets, including unsold water allocations, comprised the following water supply schemes that were owned and operated by SunWater until 30 June 2008:

- Central Lockyer Valley Water Supply Scheme
- Lower Lockyer Valley Water Supply Scheme
- Warrill Valley Water Supply Scheme
- Logan River Water Supply Scheme
- Upper Mary River Water Supply Scheme (upstream of Mary Barrage including Borumba Dam but excluding Deep Creek)
- Cedar Pocket Dam Water Supply Scheme.

Under the transfer, staff directly associated with the infrastructure assets were also transferred, together with their employee entitlements, on 1 July 2008.

Refer also to notes 11, 13, 14, 29 and 31.

(ii) Transition to company GOC

In accordance with amendments to the *Government Owned Corporations Act 1993*, SunWater made the transition of its incorporation to the *Corporations Act 2001* and became registered under that Act as an unlisted public company limited by shares under the name "SunWater Limited" with effect from 1 July 2008. The registration of SunWater as an Australian company under the *Corporations Act 2001* did not result in the formation of a new legal entity. The status quo in relation to legal rights, obligations, assets and liabilities of SunWater, incurred or existing prior to registration, was maintained.

management certification

of the financial statements

These general purpose financial statements have been prepared pursuant to section 46F(1) of the *Financial Administration and Audit Act 1977* and other prescribed requirements. In accordance with section 46F(3) we certify that:

(a) the financial statements and notes to and forming part thereof are in agreement with the accounts and records of SunWater and the consolidated entity; and

(b) in our opinion:

(i) the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects; and

(ii) the financial statements have been drawn up to present a true and fair view, in accordance with prescribed accounting standards and other prescribed requirements, of the transactions of SunWater and the consolidated entity for the reporting period 1 July 2007 to 30 June 2008 and of the financial position as at 30 June 2008.

P A Hennessy	P R Boettcher	G K White
Chair	Chief Executive Officer	General Manager Corporate

Dated: 15 August 2008

independent auditor's report

To the Board of SunWater

Matters Relating to the Electronic Presentation of the Audited Financial Report

The audit report relates to the financial report of SunWater for the financial year ended 30 June 2008 included on SunWater's web site. The Board is responsible for the integrity of SunWater's web site.

We have not been engaged to report on the integrity of SunWater's web site. The audit report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report, available from SunWater, to confirm the information included in the audited financial report presented on this web site.

These matters also relate to the presentation of the audited financial report in other electronic media including CD Rom.

Report on the financial report

I have audited the accompanying financial report of SunWater, which comprises the balance sheet as at 30 June 2008 and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies other explanatory notes and certificates given by the Chair of the Board, Chief Executive Officer and General Manager Corporate of the consolidated entity comprising the Board and the entities it controlled at the year's end or from time to time during the financial year.

The board's responsibility for the financial report

The Board is responsible for the preparation and fair presentation of the financial report in accordance with prescribed accounting requirements identified in the *Financial Administration and Audit Act 1977* and the Financial Management Standard 1997 including compliance with applicable Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the Board also states, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with Auditor-General of Queensland Auditing Standards, which incorporate the Australian Auditing Standards. These Auditing Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement in the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control, other than in expressing an opinion on compliance with prescribed requirements. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial report and any mandatory financial reporting requirements as approved by the Treasurer for application in Queensland.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

The *Financial Administration and Audit Act 1977* promotes the independence of the Auditor-General and QAO authorised auditors. The Auditor-General is the auditor of all Queensland public sector entities and can only be removed by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

Auditor's opinion

In accordance with s.46G of the *Financial Administration and Audit Act 1977*:

(a) I have received all the information and explanations which I have required; and

(b) in my opinion:

- *(i)* the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects; and
- *(ii)* the financial report has been drawn up so as to present a true and fair view, in accordance with the prescribed accounting standards of the transactions of SunWater and the consolidated entity for the financial year 1 July 2007 to 30 June 2008 and of the financial position as at the end of that year; and
- *(iii)* the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

M Maybury CA
as Delegate of the Auditor-General of Queensland

Queensland Audit Office, Brisbane
27 August 2008